

ABSTRACT

This invention relates to novel options-based financial instruments, and a related system and method that automates market trading of the novel instruments.

5 The invention protects positions against short-term market movements by inducing users on the opposite sides of a transaction to trade in equal or near equal dollar volumes. The system includes an automated price quotation capability for the instruments, that operates at computer speeds, without human intervention -- specialists and market makers are not necessary. Through the use of feedback
10 techniques, the system induces traders on the opposite sides of a transaction to trade in near equal numbers of round lots, minimizing the system's financial exposure from unbalanced trading. The system also fully automates the trading of the financial instruments themselves, plus the attendant functions (inventory control, billing, reporting, etc.), so that users may interact with the system on-line, without human
15 intervention. The novel financial instruments have the characteristic that they allow trading directly in the price movement of the underlying security (stock, bond, currency, etc.), while providing superior financial leverage as compared to investing directly in the underlying security.